



## **New Jersey Department of Children and Families Policy Manual**

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### **Policy**

#### **2.1 Introduction**

Management Systems are planning, organizing, staffing, directing, and controlling methods of providing information related to past, present, and projected operations of an organization. These systems support planning, control, and operational functions by furnishing uniform, timely information to assist in the decision making process.

## **2.2 Internal Control**

A strong internal control system is one of the elements required for an effective operation. Internal control refers to the design and use of controls that allow managers to administer current operations, plan for the future, and safeguard an organization's assets. Properly applied, good internal control procedures ensure the efficiency, effectiveness, and economy of any operation.

### General Objective and Requirements

The general objective of internal control is to provide positive assistance to employees in carrying out duties and responsibilities effectively, efficiently, and economically, giving due regard to the necessity for complying with the requirements and restrictions of contracts, and applicable laws and regulations.

The general requirements necessary to achieve effective internal control include:

1. a well-planned organized structure that delineates authority and accountability levels with clearly assigned responsibilities;
2. adequate, well-qualified personnel;
3. enforced supervision and review procedures with timely measurement of results; and
4. ongoing overall evaluation of the organization's performance.

### Financial Management System

It is important to incorporate adequate internal control in the design of a financial management system. The objectives of internal financial control are to: restrict obligations and expenditures to a minimum; to safeguard assets against waste, loss or improper/unnecessary use; to ensure that all income is collected and/or properly accounted for; and to ensure accuracy and reliability of financial and statistical reports. Effective internal financial control can prevent theft, fraud, forgery, kickbacks, innocent mistakes that can raise questions of fraud or mismanagement, and adverse publicity.

The general requirements necessary to achieve effective internal financial control include:

1. a system of checks and balances entailing specific routine procedures and a careful separation of functions;
2. accounting, recordkeeping, and reporting in accordance with sound, established business practices;
3. expenditure control policies and procedures which include specific, prudent authorization practices; and

4. monthly reconciliation of bank accounts by someone not involved in cash or recording transactions.

Several specific requirements apply to the way disbursements and payroll are handled.

#### 1. Disbursements

The following represent sound basic rules with regard to disbursements:

- a. Checks must be drawn on a bank authorized by the Board of Directors.
- b. Checks should be pre-numbered, and voided checks must be carefully controlled and accounted for.
- c. Checks should be signed by authorized personnel.
- d. Signed checks should not be returned to persons who prepared them.
- e. Disbursements should be supported by such records as invoices, receiving reports, and purchase orders approved by someone not involved in purchasing or receiving.

#### 2. Payroll

In addition to the generally applicable disbursement requirements enumerated above, the following represent sound rules with regard to payroll:

- a. Payroll procedures should be written.
- b. Attendance records should be kept, but not in the payroll office.
- c. Signed checks should not be returned to the payroll office.
- d. Persons distributing paychecks should not have access to blank checks.
- e. The distribution of pay should be witnessed.

#### Recordkeeping

Provider agencies are required to maintain detailed, auditable records which support expenditures incurred for contract services. These records must include client service records. Contract records must be capable of substantiating the reasonableness of the expenditures incurred.

The provider agency is required to permit the Department to examine records and documents containing information pertinent to the determination of the proper amount of contract payment. These records include but are not limited to matters of provider ownership, organization, and operation; federal income tax status; asset acquisition, lease, sale, or other action; franchise or management arrangements; client service charge schedules; matters pertaining to costs of operation; amounts of income received by source and purpose; and flow of funds and working capital.

Further information concerning contract records is contained in Department Policy [CON-I-A-8-8.01.2007](#), Access to Records and Facilities; Retention of Contract Records; Confidentiality.

## **2.3 Procurement Standards**

The provider agency is the responsible authority, without recourse to the Department, regarding all procurement issues including but not limited to disputes, claims, protests of awards and source evaluation. These standards do not relieve the provider agency of responsibilities under any procurement arrangement into which it may enter. Violations of laws are to be referred to the local, State or federal authority having proper jurisdiction.

The provider agency must maintain written policies and procedures to specify how the provider agency will purchase goods and services. The provider agency may use its own procurement policies and procedures. However, these policies must adhere to the standards set forth in this subsection.

### **General Procurement Standards**

All procurement transactions must meet general procurement standards. These standards include:

#### **1. Free and Open Competition**

All procurement transactions should be conducted in a manner which provides for, to the maximum extent practical, open and free competition.

#### **2. Conflict of Interest**

- a. The provider agency must maintain a conflict of interest policy that governs the performance of its officers, employees or agents involved in procurement transactions. (See Department Policy [CON-I-A-8-8.05.2007](#), Conflict of Interest.)
- b. The provider agency must be alert to organizational conflicts of interest or non-competitive practices among parties to a procurement transaction that may restrict or eliminate competition

or otherwise restrain trade. In order to ensure objective performance and eliminate unfair competitive advantage, a party that develops or drafts specifications, requirements, a statement of work, an invitation for bids or a request for proposals for a particular procurement should be excluded from competing for that procurement; however, upon request by the provider agency, the Department may waive this requirement for a particular procurement.

### 3. Economic Evaluation

#### a. Decision to Purchase

Where appropriate, an analysis should be made of lease and purchase alternatives to determine which would be the most economical and practical. Unnecessary or duplicative items may not be purchased.

#### b. Price and Cost Analysis

Provider agencies should make some form of price or cost analysis in connection with every procurement transaction. Price analysis is the evaluation of data without analysis of the separate cost components and profit which may assist in arriving at prices to be paid and cost to be reimbursed.

Cost analysis is the evaluation of cost data for the purpose of establishing estimates of costs to be incurred, prices to be paid, costs to be reimbursed or costs actually incurred. Cost data is factual information concerning the cost of labor, material, overhead and other cost components which are expected to be incurred or which have been actually incurred.

#### c. Solicitation and Formal Bidding

(1).Solicitations for bids or offers must clearly indicate all requirements that the bidder/offerer must fulfill in order for the bid/offer to be evaluated by the provider agency. Such requirements may not, in competitive procurements, contain features which unduly restrict competition. "Brand name or equal" may be used as a means to define the performance or other salient requirements of a procurement; when so used, the specific feature which must be met by bidders/offers should be clearly specified.

(2).Awards should be made to the bidder/offerer whose bid/offer is responsive to the solicitation and is most advantageous to the provider agency, price and other factors considered. Any and all

bids/offers may be rejected when it is in the provider agency's interest to do so.

#### 4. Small Business and Minority-Owned Business

Positive efforts should be made by the provider agency to utilize small businesses and minority-owned businesses, when possible, as sources of supplies, equipment, and services. Such efforts should allow these sources the maximum feasible opportunity to compete.

#### 5. Procuring an Instrument

The type of procuring instrument used, e.g., fixed-price contract, cost-reimbursable contract, purchase order, incentive contracts may be determined by the provider agency but must be appropriate for the particular procurement and for promoting the best interest of the program involved. The "cost-plus-a-percentage-of-cost" method of contracting may not be used.

#### 6. Records

Provider agencies must maintain procurement transaction records. These records should include information pertinent to the rationale for:

- a. the method of procurement utilized;
- b. the awarding of a procurement transaction to a particular party; and
- c. the basis for the cost or price.

### Procurement Contracting

If provider agencies obtain goods and services through a procurement contract they must establish procedures which, at a minimum, provide for the following:

#### 1. Contract Administration

- a. A system for contract administration must be maintained by each provider agency to ensure contractor conformance with terms, conditions, and specifications of the procurement contract.
- b. Procurement contracts must be made only with responsible contractors who possess the potential ability to perform successfully under the terms and conditions of a proposed contract. Consideration must be given to such matters as contractor integrity, records of past performance, financial and technical resources of accessibility to other necessary resources.

## 2. General Contract Requirements

- a. All contracts must include sufficient provisions to define a sound and complete agreement.
- b. Contracts must comply with all applicable federal and State legislation and regulations, including Executive Orders. These may include, but are not limited to 45 CFR, Part 74; Executive Order 11246, entitled "Equal Employment Opportunity", as amended by Executive Order 11375, as supplemented in 41 CFR, Part 60; the Copeland "Anti-Kick Back" Act (18 U.S.C. 874) as supplemented by 29 CFR, Part 3; Section 103 and 107 of the Contract Work Hours and Safety Standards Act (40 U.S.C. 327-330) as supplemented by 29 CFR, Part 5; the Clean Air Act of 1970 (42 U.S.C. 1857 et seq.) the Federal Water Pollution Control Act (33 U.S.C. 1251 et seq.) as amended; Executive Order 11738; and Environmental Protection Agency Regulations (40 CFR, Part 15).

## 3. Public Provider Agencies

Public provider agencies are bound by the Local Public Contracts Law (N.J.S.A. 40A:11). This law generally requires that public provider agencies procure by means of public advertising for bids. Exceptions to the requirement of public advertising are outlined in Section 3 of the law.

## 4. Private Provider Agencies

- a. Procurement contracts in excess of \$10,000 must contain:
  - (1) Contractual provisions or conditions that will allow for administrative, contractual or legal remedies in instances in which contractors violate or breach contract terms, and provide for such remedial actions as may be appropriate.
  - (2) Suitable provisions for termination by the provider agency including the manner by which termination will be effected and the basis for settlement. In addition, such contract must describe conditions under which the contract may be terminated for default as well as conditions where the contract may be terminated because of circumstances beyond the control of the contractor.
- b. Sole source or single bid procurement contracts that exceed \$5,000 require prior Department approval.

## 2.4 Audit

Sound fiscal and management practices dictate that an organization's financial statements be audited annually at its fiscal year end. Provider agencies should select independent public accountants to perform this task. In cost-related contracts the cost of such audits (or an appropriate portion of the cost) may be included in the contract budget. Every attempt should be made to keep audit costs as low as possible without undue compromise in the quality of the work performed.

If an agency requires assistance in selecting an independent public accountant, it may contact either the New Jersey State Society of Certified Public Accountants or the New Jersey Association of Public Accountants. These organizations can answer questions in regard to the professional reputation or qualifications of any New Jersey auditing firm. Further information concerning a provider agency's audit is contained in Department Policy [CON-I-A-7-7.06.2007](#), Audit Requirements.

In addition to the annual fiscal-year-end audit which should be obtained routinely by all organizations, the following are other types of audits which the Department may choose to conduct.

#### Pre-Award Survey

A pre-award survey to determine a provider agency's fiscal and administrative capabilities is generally conducted when the Department has no recent experience or has had unsatisfactory experience in contracting with the provider. A provider agency which has not previously been under contract with the Department must advise the Department of its fiscal year period and must make available for examination its cost, revenue, and statistical data as well as any other information pertinent to reimbursement under the prospective contract. The purpose of the Department's examination in such cases is to ensure that the provider has data which is adequate for cost reporting and verification by qualified auditors, and to ascertain the overall quality of the provider's recordkeeping system and to determine its capability for the future. Specific policies and procedures with respect to a pre-award survey are contained in Department Policy [CON-I-A-7-7.05.2007](#), Pre-Award Survey.

#### Contract Audit

At the discretion of the Department, an audit dealing specifically with contract operations may be conducted after termination of the contract. Such audit may be performed either by a public accounting firm under contract with the Department or by the Department's audit staff. Further information concerning contract audit requirements is contained in the contract Standard Language Document (see Department Policy [CON-I-A-2-2.01.2007](#), Department of Children and Families' Standard Language Document for Social Service and Training Contracts).

#### Special Purpose Audit

A special purpose audit is generally one which is conducted during the contract term when an irregularity appears to exist in provider agency operations. The contract Standard Language Document reserves the Department's right to



require audits during the contract term. Special purpose audits may be conducted by public accounting firms under contract with the Department or by the Department's audit staff.